

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /111 W

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R 031723Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1204

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 10883

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 2)

1. MONEY SUPPLY: IN MAY THE NARROWLY DEFINED MONEY SUPPLY (M1) INCREASED BY DM 4.1 BILLION WHILE THE WIDELY DEFINED MONEY SUPPLY (M2) DECLINED BY DM 0.4 BILLION. ON A SEASONALLY ADJUSTED BASIS M1 INCREASED BY DM 4.6 BILLION (APRIL 1975: PLUS DM 1.5 BILLION) WHILE M2 DECLINED BY DM 3.6 BILLION (APRIL 1975: MINUS 5.5 BILLION). THE DECLINE IN M2 WAS APPARENTLY DUE TO A CONTINUED SHIFT FROM TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS TO SAVINGS DEPOSITS. AT THE END OF MAY  
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1975 M1 WAS 14 PERCENT ABOVE LAST YEAR WHILE M2 WAS

3 PERCENT LOWER. THE EXTENSION OF BANK CREDITS TO THE PRIVATE ECONOMY (WHICH DECLINED IN APRIL BY DM 2.7 BILLION) INCREASED IN MAY BY DM 3.6 BILLION; LONG-TERM CREDITS BY DM 3.4 BILLION AND SHORT-TERM CREDITS BY DM 0.2 BILLION. IN APRIL 1975 LONG-TERM CREDITS HAD INCREASED BY DM 3.1 BILLION WHILE SHORT-TERM CREDITS HAD DECLINED BY DM 5.9 BILLION. PUBLIC AUTHORITIES CONTINUED TO BORROW SUBSTANTIAL AMOUNTS FROM BANKS (DM 3.6 BILLION IN MAY AS COMPARED WITH DM 4.1 BILLION IN APRIL). MONEY IN SAVINGS ACCOUNTS AND INVESTMENTS IN SAVINGS BONDS WERE IN MAY SOMEWHAT LOWER THAN IN APRIL WHEN THEY REACHED A MONTHLY RECORD OF DM 9.6 BILLION. THE DECLINE MAY IN PART BE ATTRIBUTABLE TO A DECREASE IN THE TRANSFER FROM TIME DEPOSITS (WITH MATURITIES UP TO 4 YEARS) TO SAVINGS DEPOSITS. DURING MAY THE INDIVIDUAL DETERMINANTS AND COMPONENTS OF THE MONEY SUPPLY DEVELOPED AS FOLLOWS:

	1975	1974	
	MAY	APRIL	MAY
BANK LENDING TO DOMESTIC NON-BANKS	7.7	0.3	4.1
NET EXTERNAL ASSETS OF BANKS (INCL. BUNDESBANK)	0.2	2.5	1.2
SAVINGS DEPOSITS AND SAVINGS BONDS	6.2	9.6	1.6
TIME DEPOSITS (1) AND OUTSTANDING BANK BONDS (2)	1.5	2.1	1.8
OFFICIAL ASSETS HELD AT CENTRAL BANK	-0.8	-3.5	0.1
OTHERS	-1.4	1.1	.5
MONEY SUPPLY (M2)	-0.4	-3.5	2.3
OF WHICH: CURRENCY IN CIRCULATION AND SIGHT DEPOSITS (M1)	4.1	2.5	2.0
TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS	-4.5	-6.0	.3

(1) WITH MATURITIES OF 4 YEARS AND MORE.

(2) EXCLUDING BONDS HELD BY BANKS.

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2. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK, SPOT DOLLARS INCREASED BY ABOUT 3 1/2 PFENNIGS, THEREBY RETURNING TO LEVELS WHICH PREVAILED IN EARLY MAY OF THIS YEAR. THE GERMAN FINANCIAL PRESS ATTRIBUTED THE DOLLAR STRENGTHENING TO THE INCREASE IN US INTEREST RATES, FAVORABLE US MAY TRADE FIGURES AND REPORTS ON MORE FAVORABLE PROSPECTS FOR THE US ECONOMY. DURING

THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES  
DEVELOPED AS FOLLOWS:

	SPOT DOLLARS	ONE-MONTH	THREE-MONTH
JUNE 26	DM 2.3420	-1.6	-2.0
27	2.3485	-1.6	-1.9
30	2.3548	-1.5	-1.9

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SIL-01 L-03 H-02 PA-02 PRS-01 /111 W

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R 031723Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1205

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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JULY 1	2.3600	-1.1	-2.0
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2      2.3760      -2.0      -2.4

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY. ON JUNE 30 THE SWEDISH CROWN REACHED ITS UPPER DEUTSCHEMARK INTERVENTION POINT.'

3. MONEY MARKET: THE GERMAN CALL MONEY MARKET EASED AT THE BEGINNING OF JULY. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

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JUNE 26	5.5-5.8	4.7-5.0	4.7-5.0
27	5.5-5.7	4.7-5.0	4.7-5.0
30	5.5-5.6	4.7-4.0	4.7-5.0
JULY 1	5.2-5.5	4.8-5.1	4.8-5.1
2	5.1-5.3	4.7-5.0	4.7-5.0

4. BUNDESBANK FOREIGN POSITION: DURING THE THIRD WEEK OF JUNE (JUNE L6-23) THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.1 BILLION TO DM 82.3 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE DECLINED BY DM 237 MILLION AND GROSS LIABILITIES BY ABOUT DM 20 MILLION WHILE GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 116 MILLION.

5. BANK LIQUIDITY: DURING THE THIRD WEEK OF JUNE BANK LIQUIDITY INCREASED BY DM 0.3 BILLION. FACTORS INCREASING LIQUIDITY WERE THE USUAL DECLINE OF CURRENCY IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 2.1 BILLION) AND A SUBSTANTIAL DM 5.9 BILLION REDUCTION IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. (DURING THE FIRST THREE WEEKS OF JUNE THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK WERE ON AVERAGE PER DAY, DM 42.1 BILLION AS COMPARED WITH AN ANTICIPATED RESERVE REQUIREMENT OF DM 42.0 BILLION.) THE PRINCIPAL FACTOR REDUCING BANK LIQUIDITY WERE PAYMENTS FOR THE MAJOR MID-JUNE TAX DATE. SUCH PAYMENTS ENABLED THE FEDERAL GOVERNMENT TO REDUCE (BY DM 1.1 BILLION) ITS CASH CREDIT TAKEN UP AT THE BUNDESBANK TO ZERO AND TO INCREASE ITS BUNDESBANK ASSETS BY DM 3.6 BILLION, AND THE STATE GOVERNMENTS TO INCREASE THEIR BUNDESBANK ASSETS BY DM 3.0 BILLION. THE BANKS USED IN THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 0.8 BILLION. AT THE SAME TIME THEY INCREASED LOMBARD BORROWINGS BY DM 0.1 BILLION AND RETURNED DM 0.4 BILLION OF MONEY MARKET PAPER TO THE BUNDESBANK.

6. BOND MARKET: IN RECENT WEEKS THE DECLINE IN YIELDS OF DOMESTIC BONDS (WHICH BEGAN IN NOVEMBER OF LAST YEAR) HAVE COME TO A HALT. CURRENTLY YIELDS HAVE RETURNED TO A LEVEL WHICH PREVAILED IN LATE MAY OF THIS YEAR. DURING THE REPORTING WEEK AVERAGE YIELDS TO UNCLASSIFIED

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MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

JUNE 26	8.58	8.70	8.25
27	8.56	8.68	8.25
30	8.57	8.68	8.29
JULY 1	8.59	8.70	8.27
2	8.62	8.69	8.24

ON JULY 9 THE SWEDISH POST- OCH KREDITBANK, STOCKHOLM, WILL ISSUE A DM 60 MILLION LOAN (COUPON 8.5 PERCENT, ISSUE PRICE PROBABLY 99.5 PERCENT, MAXIMUM MATURITY 8 YEARS). THE SOUTH AFRICAN RAILWAYS AND HARBORS, JOHANNISBURG, IS CURRENTLY NEGOTIATING WITH THE BERLINER HANDELSGESELLSCHAFT - FRANKFURTER BANK ON THE ISSUE OF A DM 70 MILLION LOAN. THE LOAN IS EXPECTED TO BE FLOATED ON JULY 10. THE MATURITY IS EXPECTED TO BE FIVE YEARS AND THE COUPON 9 1/4 PERCENT. THE ISSUE PRICE WILL BE FIXED IMMEDIATELY BEFORE THE ISSUE. HILLENBRAND

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## Message Attributes

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